

VZCZCXRO1941
PP RUEHFK RUEHKSO RUEHNH
DE RUEHKO #0284/01 0430656
ZNR UUUUU ZZH
P 120656Z FEB 10
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC PRIORITY 9357
INFO RUEHFK/AMCONSUL FUKUOKA 8798
RUEHNH/AMCONSUL NAHA 1135
RUEHOK/AMCONSUL OSAKA KOBE 2614
RUEHKSO/AMCONSUL SAPPORO 9290
RUEKJCS/SECDEF WASHDC
RHMFIUU/USFJ
RHEHAAA/NSC WASHDC

UNCLAS SECTION 01 OF 07 TOKYO 000284

SENSITIVE
SIPDIS

DEPT FOR EAP/J, NSC FOR RUSSEL
DOD FOR APSA - GREGSON/MITCHELL/SCHIFFER/HILL/BASALLA
USFJ FOR J00/J01/J5

E.O. 12958: N/A
TAGS: [PREL](#) [PGOV](#) [EFIN](#) [ECON](#) [MARR](#) [JA](#)
SUBJECT: SCENESETTER FOR SENATOR WEBB'S FEBRUARY 14-17
VISIT TO JAPAN

11. (SBU) Begin Text of Scenesetter:

Dear Senator Webb:

Welcome to Japan, a nation in transition. The Democratic Party of Japan's (DPJ) landslide victory in last year's August 30 Lower House election has dramatically altered Japan's political landscape, marking the end of the former ruling Liberal Democratic Party's (LDP) virtually uninterrupted 54-year rule. Prime Minister Yukio Hatoyama and the DPJ have laid out an ambitious domestic agenda as well as a foreign policy vision aimed at a "more equal" relationship with the United States and, with the U.S.-Japan relationship as Japan's foreign policy foundation, a greater emphasis on Asia.

Disappointed with years of economic stagnation, growing employment insecurity and increasingly visible holes in the social safety net (including the loss of millions of pension records), Japanese voters turned to the DPJ, which had promised solutions to these problems and fundamental "change" in the way Japan is governed, including giving more authority to elected leaders as opposed to the bureaucracy.

Prime Minister Hatoyama has made clear that continuing a good relationship with the United States is one of his highest priorities. Japan has been a strong supporter of U.S. diplomatic objectives in the region and the world. The U.S. and Japan remain two of the most significant contributors of global development assistance, and our priorities and policy positions are frequently closely aligned. Japan has provided invaluable support to our policies regarding North Korea, Afghanistan/Pakistan, nuclear non-proliferation and disarmament, Iraq, Iran, the Middle East peace process, and recently Haiti. Although the Hatoyama government chose not to extend Japan's Indian Ocean refueling mission that supported Operation Enduring Freedom, it has sought to play a visible role in other parts of the world, including through a five-year, \$5 billion pledge to Afghanistan and a decision to dispatch Japan Self Defense Forces medical and engineering teams to Haiti.

Japan supported key U.S. positions -- particularly for mitigation efforts by major developing countries -- at the COP-15 summit in December, and its recent inscription of a 25 percent cut in greenhouse gases over 1990 levels helped build momentum for the Copenhagen Accord. Unlike earlier periods, with the exception of restrictions on market access for U.S. beef producers and level playing field concerns for the

insurance sector, as well as more recent concerns about the ability of U.S. autos to qualify for Japan's eco-car subsidy program, we have few major contentious trade issues with Japan. Our cooperation on financial stabilization has been good although there are still concerns about the long-term prospects for the Japanese economy.

This year marks the 50th anniversary of the Treaty of Mutual Cooperation and Security, and the U.S.-Japan Alliance remains the cornerstone of peace and stability in East Asia. The strength of the Alliance notwithstanding, the media has portrayed differences on several issues as symptoms of a strained partnership. The focus of media attention has been the new government's decision to review a 2006 agreement (the Realignment Roadmap) on the transformation of U.S. forces and facilities in Japan, specifically the relocation of U.S. Marine Corps Air Station (MCAS) Futenma in heavily populated southern Okinawa to the planned Futenma Replacement Facility (FRF) at Camp Schwab in northern Okinawa. This development has overshadowed notable progress in other areas of the Roadmap as well as planning for new initiatives to deepen the Alliance in this anniversary year. We see your visit as an opportunity to highlight the vibrancy of the Alliance and the overall relationship, while advancing cooperative efforts to address points of difference.

John V. Roos
Ambassador

12. (SBU) Begin text of checklist:

TOKYO 00000284 002 OF 007

Domestic Politics

To date, Prime Minister Yukio Hatoyama and his DPJ-led government have sought to project an image of competence, stability, and experience while quelling concerns about their ability to address pressing domestic issues, such as economic recovery, health care and pensions. The DPJ has also moved to strengthen the administration's role in budget and policy formulation, putting "political leadership" ahead of the bottom-up, bureaucracy-led policymaking style of previous LDP governments. But while "not business as usual" has been the unofficial slogan of this new government, political finance scandals continue to dog party leadership, including PM Hatoyama and DPJ Secretary General Ichiro Ozawa. While the prosecutors' early February decision not to indict Ozawa appears to have let him off the hook for the time being, it remains to be seen whether the public will be so forgiving, particularly with an important election in July.

Bilateral and Security Issues

-- Support for the Alliance: While the plan to relocate Marine Corps Air Station (MCAS) Futenma to the planned Futenma Replacement Facility (FRF) at Camp Schwab in northern Okinawa has been a dominant feature of bilateral discussions, we are also engaging the DPJ government on a wide range of bilateral and security issues. On one hand, Prime Minister Hatoyama has publicly acknowledged that the Alliance remains the cornerstone of Japan's foreign policy. On the other, the DPJ government is reexamining components of bilateral defense cooperation, including the following:

-- Realignment/Futenma: Since taking office in September, the DPJ Government has withheld endorsement of the FRF portion of the Realignment Roadmap, pending a review of this 2006 agreement to reconfigure U.S. forces and facilities in Japan. At the November Summit, Prime Minister Hatoyama and President Obama noted their intent to resolve the FRF issue expeditiously, but the GOJ announced in December that it would delay a decision, due to the need for further

consultations within the governing coalition. In recent weeks, a working group comprised of GOJ officials and representatives of the three coalition parties has been examining possible alternative relocation sites for MCAS Futenma. The working group will soon submit proposals on these sites, with a view to meeting Prime Minister Hatoyama's May target date for a resolution.

Expectations are rising within Okinawa that Japan's new government will relocate MCAS Futenma outside of the prefecture. In response, however, some government leaders have publicly noted that their review does not exclude the current plan. Government leaders in Tokyo were also quick to preempt efforts to use the election of an "anti-base" mayoral candidate, in the Okinawan town that is slated to host the planned FRF, as grounds for ruling out the current plan. The Okinawa Governor remains committed to the current plan, although he concedes that the loss of local municipal support will make implementation more difficult.

The consistent U.S. position has been that the planned FRF at Camp Schwab remains the best option to maintain our military's deterrent capabilities and to reduce its impact on local communities, the twin goals of the Realignment Roadmap.

We have also emphasized the need to maintain momentum on other Roadmap initiatives and to deepen new forms of cooperation within the Alliance, such as in ballistic missile defense, humanitarian assistance/disaster response, and trilateral engagement with regional partners.

-- "Secret" Agreements: Reports of the existence of "secret" agreements between the United States and Japan dating from the 1960s have caused mild media interest focused on Japan's "three non-nuclear principles" of not producing, possessing or allowing introduction of nuclear weapons into Japan. Former Vice Foreign Minister Ryohei Murata, who served as Vice Foreign Minister from 1987-89, disclosed to local press

TOKYO 00000284 003 OF 007

the existence of an agreement between the United States and Japan (declassified in the United States in 1999 and available publicly), that has allowed nuclear-armed U.S. vessels and aircraft to make port calls and transits in Japan. Although members of previous Japanese administrations and bureaucrats consistently denied the existence of any agreement, Prime Minister Yukio Hatoyama has vowed to clarify the issue. Foreign Minister Okada on September 16 ordered MOFA officials to begin an investigation into this and three other purported "secret" U.S.-Japan agreements covering combat operations from Japan, reintroduction of nuclear weapons into Okinawa and monetary arrangements associated with Okinawa's reversion to Japan. MOFA engaged in a document review at MOFA headquarters and the Japanese embassy in Washington to find Japanese documentary evidence of these agreements. The review is now complete and FM Okada has asked an expert panel of academics to review the report of the findings.

-- Nuclear Disarmament and Non-Proliferation: The Japanese government has welcomed the President's initiatives on disarmament, beginning with his speech last year in Prague. Former Foreign Minister Nakasone gave his own speech in April in response, outlining 11 benchmarks for nuclear disarmament.

The Japanese disarmament community, centered on several NGOs and the mayors of Hiroshima and Nagasaki, has enthusiastically welcomed the President's disarmament initiatives. The two mayors have asked for the President to visit their cities.

-- SOFA: DPJ politicians, prefectural governors in particular, have talked about pursuing changes to the Status of Forces Agreement (SOFA) to address perceived public concerns about criminal jurisdiction and environmental issues associated with U.S. base facilities. Despite publicity on this subject, the new Japanese Government to date has made no request to revise the SOFA.

--HNS: Host Nation Support (HNS) defines Government of Japan cost-sharing for U.S. Forces stationed in Japan. HNS totaled USD 4.3 billion in FY 2008, but has declined 15 percent since 1997. Currently, both sides are preparing to conduct a "Comprehensive Review" of Host Nation Support to ensure that the package is economically efficient and politically sustainable.

-- IPCA: International Parental Child Abduction (IPCA), is the highest priority consular issue for the Mission. There are currently 75 cases in which a parent abducted a child from the U.S. to Japan leaving the American Left Behind Parent (LBP) with no access to his or her child. There are also American parents living in Japan who have little or no access to their children because the other parent abducted the child in Japan or because they got divorced in Japan and do not have enforceable visitation rights. In October 2009 the Ambassador led an eight embassy demarche on the Minister of Justice calling upon Japan to accede to the Hague Convention on the Civil Aspects of International Child Abduction and implement measures to enable access by LBPs. On January 30, 2010, the Ambassador and envoys from the same embassies demarched the Foreign Minister calling for Japan to accede to the Hague Convention, enable access, and establish a mechanism for resolution of existing cases. In late November 2009, the Ministry of Foreign Affairs (MOFA) established the Division for Issues Related to Child Custody (DIRCC) to coordinate matters related to child abduction. On February 10, the Consul General, joined by colleagues from seven nations, will meet with the DIRCC and Ministry of Justice officials. Consular officers are working with MOFA officials to establish a bilateral working group to discuss individual cases, including improved access and visitation, as well as ultimate resolution of these cases. A/S Campbell met with LBPs in Japan on February 2 and encouraged them to request a meeting with Senator Webb. He stated that if left unresolved, this issue has the potential to raise serious concerns, and added that legal measures, such as indictments, may be necessary.

Foreign Relations

TOKYO 00000284 004 OF 007

-- Afghanistan-Pakistan: Japan has been a leading international donor for Afghanistan reconstruction and development since 2002, contributing over \$2 billion in aid for such important areas as rule of law/security sector reform (e.g. paying salaries and training of 80,000 Afghan National Police) aid, health improvements, and rural/agricultural development. Prior to President Obama's inaugural visit to Japan last November, Japan rapidly developed and publicly committed to providing a substantial package of increase civilian assistance for Afghanistan. With this new \$5 billion/5 year pledge, Japan is essentially quadrupling its Afghanistan program, becoming the second most significant bilateral donor there (after the U.S.) in terms of aid funding levels. Japan's new assistance is targeted on providing incentives and training for the re-integration of ex-Taliban members, continued police reform assistance, infrastructure improvements such as the development of a new city to improve services and relieve severe overcrowding in the Kabul Metropolitan Area, and expansion of its agricultural assistance. As part of its expanded pledge, Japan also confirmed its intent to provide on an expedited basis \$1 billion for assistance to Pakistan.

-- Iraq: Japan is the second-largest contributor to Iraq's reconstruction and has established a new Japanese International Cooperation Agency (JICA) regional office in Erbil, and has committed several multi-billion major infrastructure development loans to spur economic development.

-- Iran: Although Japan maintains what it terms a "normal" relationship with Iran, it supports international efforts led by the P-5 plus 1 to address concerns about Iran's nuclear program and has diligently implemented UNSC resolutions on Iran. Senior Japanese officials meet intermittently with Iranian representatives and carry the message urging Iran to abide by the will of the international community. Japan imports virtually all its oil and relies heavily on imports from Iran. Japan prefers the framework of UN Security Council resolutions and has expressed support for additional coordinated international pressure against Iran, including a possible new UNSC resolution. Japan has stressed the importance of broad international participation for measures on Iran to be effective. Japan's desires to be an intermediary between the United States and Iran, maintain its relationship with Tehran, and reluctance to work outside the UNSC framework can create potential conflicts for the GOJ and raise some concern that Japan will remain firm as we seek to increase pressure on the regime.

-- Middle East Peace Process: Japan plays a role in supporting the Middle East Peace Process and is broadly supportive of U.S. efforts to restart negotiations. In that context, the Ministry of Foreign Affairs (MOFA) has sounded out Southeast Asian countries, in particular Indonesia, Malaysia, and Singapore, about a Japan-led initiative to build international support for Peace Process discussions, particularly among Southeast Asian countries. Japan's Special Middle East Envoy Iimura traveled to Southeast Asia late last year to discuss the proposal, receiving cautious but interested responses. Although Japan maintains its traditional focus on development assistance to the Palestinians, in December 2009, the GOJ announced \$15 million in "non-project" assistance to the Palestinian Authority in response to U.S. entreaties to provide budget support to the PA to ease its fiscal crisis. Japan used the February 7-10 visit of Palestinian Authority President Abbas to reaffirm its support for the Middle East Process and to strengthen Abbas, political standing.

-- China: Japan's relations with its other immediate neighbors are generally stable, although problems persist just beneath the surface. Prime Minister Hatoyama is continuing the efforts of Former Prime Minister Aso, who had been successful in defusing the sharp conflicts over history that damaged relations with China during the Koizumi years. Hatoyama participated in the second stand-alone Japan-China-South Korea Trilateral Dialogue in October 2009. Japan also recently hosted PRC Vice President Xi Jinping, the

TOKYO 00000284 005 OF 007

presumptive next president, in a visit that had all the bells and whistles of a state visit. Japan restarted its version of the Strategic and Economic Dialogue (S&ED) last year after a long hiatus.

While Japanese acknowledge that good U.S.-China relations are in Japan's interest, they also fear that the United States will discount Japan's interests in pursuit of more robust relations with China. Japan has opposed China's apparently unilateral exploration of oil and gas fields in the East China Sea the two countries have pledged to jointly develop. Japan also has been wary of falling behind China in securing access to natural resources.

-- North Korea: Japan and the United States coordinate closely on North Korea and the Six Party Talks, and there is no daylight between our positions on how to move forward: a return to the Six Party Talks and progress on denuclearization must precede any lifting of sanctions and discussion of a peace regime. Japan remains exceedingly uneasy about the DPRK in light of its nuclear tests, missile launches over the Sea of Japan, and bellicose rhetoric. You will be expected to express concern for the fate of Japanese citizens abducted by the DPRK.

-- South Korea: Territorial disputes over the Liancourt Rocks (Takeshima/Tokdo) and history issues remain an irritant to Japan's relations with South Korea, but both sides have expressed a desire to build a Japan-ROK relationship that is "different from the relationship up until now." The ROK Government sees the Hatoyama Government as a much more sympathetic interlocutor. Under the administration of former Prime Minister Aso, the pace of "shuttle diplomacy" picked up markedly. The year 2010 marks the 100th anniversary of Japan's annexation of Korea, and both sides are seeking to avoid controversy and use the opportunity to create a more future-oriented relationship. The bilateral defense relationship between the ROK and Japan, in particular, has improved since the 2008 change in administration in South Korea. Senior-level exchanges among both uniformed and civilian defense officials increased substantially. This, in turn, has allowed trilateral defense talks among the United States, Japan, and South Korea to gain momentum, culminating in Secretary Gates' participation in the first-ever trilateral defense ministerial in May 2009.

--Japan's Concept of an East Asian Community: As part of its overall efforts to improve relations with its neighbors, the DPJ government initially proposed the establishment of an East Asian Community with the goal of pursuing an ambitious program for regional integration along the lines of the European Union. While short on specifics, the idea nevertheless generated a certain amount of controversy, mainly because it was unclear at first whether Japan was proposing an East Asia community that was open to the United States. More recently, however, PM Hatoyama and others have clarified that Japan's relationship with the United States is the cornerstone of its foreign policy, and that Japan would on this basis seek to strengthen and expand its ties with its Asian neighbors.

-- Climate Change/Energy Security: Before taking office, PM Hatoyama announced that the GOJ would target a 25 percent reduction in greenhouse gas emissions, from 1990 levels, by 2020 - a far more ambitious target than the cuts proposed by former Prime Minister Aso. In late January, Japan inscribed its commitment to these targets under the Copenhagen Accord, conditional upon "ambitious" reductions by other major emitters. The new targets were set with little or no consultation with Japanese ministries to the dismay of the bureaucracy, particularly the Ministry of Economy, Trade and Industry (METI). A Government panel is expected to release its roadmap for achieving Japan's climate goals in March. A substantial part of these cuts -- up to 40 percent -- will have to come in the form of carbon credits from developing countries, most likely through expanded Japanese ODA for clean energy projects, especially in Asia. Prime Minister Hatoyama has proposed substantially increasing Japan's already robust climate change assistance programs. While final budget numbers are still being considered by the GOJ

TOKYO 00000284 006 OF 007

and Diet, climate change assistance to developing countries for mitigation and adaptation is likely to exceed \$10 billion over the next three years.

Domestically, the DPJ is expected to propose a cap-and-trade program, some form of carbon tax, an expanded feed-in-tariff for renewable energy, and incentives for the purchase of efficient vehicles and appliances. Despite stiff opposition from certain Japanese businesses and the opposition LDP, some sectors such as next-generation vehicles, solar, wind and nuclear expect to see expanded business opportunities under the new Administration. Japan is home to a number of world-class "clean tech" companies, some of whom have commercial tie-ups with American businesses. Encouraging Japan to support open global standards for emerging technologies like smart grid is a priority for the Mission. The DPJ, like its predecessor, has also emphasized diversification of Japan's energy supply and stable relations with a broad range of natural resource suppliers.

The Economy

Japan remains the world's second largest economy with a GDP of \$4.9 trillion (2008). The economy emerged from four consecutive quarters of contraction in the second quarter of 2009 ending the country's deepest economic recession since World War II. After contracting 5.4 percent in 2009, the International Monetary Fund projects GDP to grow 1.7 percent in 2010. Growth is projected to be driven by a domestic stimulus package and a modest recovery in net exports. The latest unemployment rate of 5.1 percent is down from last October's record high 5.5 percent, but that figure masks a large number of unemployed Japanese who are paid small subsidies to not seek work. Japan's financial services industry was relatively insulated from the global financial crisis due to its conservatism and limited exposure to structured securities. However, export-oriented sectors of the economy, such as automobiles and electronics, suffered immensely. Deflation remains a concern, as the "core-core" consumer price index (CPI) fell 1.2 percent in December, 2009, its steepest decline ever. Foreign direct investment (FDI) in Japan, while up significantly over the past decade, remains low compared to other OECD nations, with FDI stock in Japan totaling \$179.6 billion in 2008 (3.6 percent of GDP), of which \$65 billion came from the United States. The comparatively low level of inward FDI hinders innovation, hampers competition and limits opportunities for increased productivity and transfer of knowledge -- all of which are important to promoting sustainable economic recovery.

Domestic Economy: The Hatoyama Cabinet has stressed the importance of higher domestic demand, which is very welcome in the broader context of returning to more balanced pattern of global growth. However, their proposed fiscal policy, outlined in its August 2009 campaign platform, has a populist bent as it primarily seeks to channel fiscal resources to households. The DPJ pledges called for increasing disposable income and encouraging consumption by abolishing provisional taxes rates, eliminating highway tolls, and providing subsidies for children and farmers. The proposed expenditures would cost about \$177 billion annually, or 3.6 percent of Japanese GDP. The administration also supports the development, production, and marketing of the latest technologies such as IT, biotechnology, and nanotechnology with particular focus on reducing the impact of global warming through renewable energy development and other green technologies, which the DPJ believes will foster new and large-scale employment, spur innovation and boost long-term GDP growth.

DPJ Economic Policies: Economists believe the DPJ's policies should boost short-term economic growth, but worry that the new spending measures will cause additional strain in the medium term by adding to the national debt, which already totals almost 180% of GDP and is expected to surpass 200 percent of GDP in 2010. The Hatoyama Cabinet, originally insisted it had identified existing revenue sources for these expenditure increases: "cuts in wasteful government

TOKYO 00000284 007 OF 007

spending"; rebalancing of surplus funds in special accounts; tax increases; and sales of government assets, but has recently reneged on its promise to not issue additional government bonds to pay for the stimulus measures citing a shortfall in tax revenue from the economic slowdown. Whether higher growth over the longer term can be sustained is open to question without productivity increases, particularly in the services sector.

End text of checklist.
ROOS